

KeyserMarstonAssociatesInc.

Timothy C. Kelly
A. Jerry Keyser
Michael Marston
Kate Earle Funk
Robert J. Wetmore
Michael Conlon

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MEMORANDUM

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TO: City of Walnut Creek
Attention: Mr. Thomas G. Dunne, City Manager

FROM: Keyser Marston Associates, Inc.

SUBJECT: WALNUT CREEK CITY REVENUES AS THEY RELATE
TO THE TRAFFIC CONTROL INITIATIVE (MEASURE "H")

PURPOSE

The purpose of this analysis is to determine the estimated revenues available to the City of Walnut Creek generated from future development. The revenue estimates project the total dollars gained by the City if the traffic control initiative is not passed on November 5th of this year.

Substantial impacts to all categories of development would occur with the passage of the measure. According to the initiative, restrictions would prohibit the following development: (1) commercial buildings over 10,000 square feet on a single parcel and (2) housing projects over 30 units on a single parcel in the core area and 10 units on a single parcel outside the core area. This moratorium does not apply to parking structures, senior housing, medically related facilities, cultural facilities and residential additions to existing housing. If enacted, only the following percentage of proposed development would take place: 20% of the proposed retail projects would be completed, none of the hotel development, 15% of the office projects, and 50% of the residential development, according to City staff estimates.

The analysis summarizes estimated revenues at total buildout over ten years, expressed in 1985 dollars, from future development in four major land categories: retail, residential, office and hotel.

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SUMMARY OF FINDINGS AND CONCLUSIONS

City

The projected City revenues at year ten are estimated to be:(1)

<u>Without Passage of Measure</u>		<u>With Passage of Measure</u>	
Retail	\$1,580,000	Retail	\$ 315,000
Residential	2,385,000	Residential	1,185,000
Office	705,000	Office	112,000
Hotel	2,980,000	Hotel	0
SUBTOTAL	\$7,650,000	SUBTOTAL	\$1,612,000
Development		Development	
Fees	\$1,000,000(2)	Fees	\$ 130,000
TOTAL	\$8,890,000	TOTAL	\$1,840,000
=====		=====	

The revenue projections for each year of the first ten years is prorated. It is recognized that development does not follow such an even distribution. However, if the major tax generators, that is the retail and hotel space, occur primarily over the next five years, which they could given the current proposals, then the revenues to the City would be accelerated as compared to an even proration.


Redevelopment

In addition, the Redevelopment Agency would receive income from participation in the cash flow of the Walnut Creek Town Centre project. In 1985 dollars, the Agency revenue in year 10 is: \$63,000 from the participation in the developer cash flow and \$48,000 from the Macy's participation. By year 20, as the project matures, the revenue increases to \$114,000 from the developer cash flow and \$54,000 from the Macy's participation.

It should be noted that the Agency participation revenues are conservative. The recent success of Nordstrom illustrates the

(1) See Table 5 for the entire 10 year cash flow.

(2) Development fees billable by the City are:
Office=\$3.00/sq. ft. and Retail/Hotel=\$1.30/sq. ft.



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strong retail market. The Town Centre project should also benefit from this strong market with Macy's and a major hotel as anchor tenants.

Potential City Revenues From Downtown

Beyond the direct fiscal advantages generated to the City from future development, additional long range benefits to the City can be achieved. In the downtown area, in particular, the City enjoys a unique opportunity to complete the retail core with the introduction of major new retailers such as Macy's and Saks Fifth Avenue. There are existing proposals now to develop these stores plus complimentary retail shops. There are also proposals to develop several major first class hotels in the core area. Such a diversity and mix of new tenants would enhance the community's image of the downtown as a major retail and pedestrian oriented center. Unlike a typical suburban commercial center focused around an enclosed mall, the downtown core area would be a unique configuration of centers and existing streets creating an atmosphere of a "shopping place". The new retail and hotel development would also increase the pedestrian activity on existing streets, such as, Main, Locust and Broadway Plaza. The cumulative effect of the greater diversity and mix of tenants would benefit the City through additional fiscal revenues in the form of: increasing business activity, larger sales volumes, and increasing property values, thereby producing more property tax and sales tax revenues.

ASSUMPTIONS AND METHODOLOGY

In order to quantify the projected increase in City revenues, assumptions were compiled from a number of sources. As it relates to the proposed City development program and City revenue sources, data was supplied by the City of Walnut Creek staff. This information was supplemented by the ERA study entitled, "Fiscal Implications Of Core Area Alternative Futures," November 20, 1984. With regards to estimated development costs, development costs for other comparable projects in the Bay Area were reviewed.

The inputs, assumptions and methodology used in this analysis are put forth in a series of tables. Table 1 is the proposed development program for the entire City of Walnut Creek, both with and without the initiative. Proposed development was divided into the four land use categories. Estimates come from the City Planning Department's roster of planned development projects yet to be constructed.

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Inputs on the sources of City revenues from taxes and other fees imposed on all forms of development are summarized in Table 2. The major revenue categories affected are property taxes, sales and use tax and transient occupancy tax.

Table 3 shows the annual municipal revenues attributable to incremental development by revenue source. It should be noted that market conditions could affect the economic variables used in the analysis and can cause tax receipts to vary, such as property values and retail sales and hotel room rates. Clearly, land uses relating to retail and hotel development provide the major share of the City's revenues. Note that the retail land use component is broken down into a regional serving commercial development and a local serving category.

Table 4 lists key assumptions used to arrive at the incremental revenue estimates. Assumptions used to calculate regional retail revenues are based on the proposals for Town Centre and the Saks project.

The projection of the City revenues is presented in the summary and in Table 5. In year 10, it is: \$7,650,000 without passage and \$1,612,000 with passage. Development fees add another \$1 million in revenues from office, hotel and retail development without passage and \$130,000 from office and retail development with passage.

Redevelopment area revenues will be affected by the Town Centre project. Agency revenues are generated from the following sources: (1) agency participation in the cash flow from the development of the commercial parcel (retail/office/hotel), (2) participation payments by Macy's as its sales volume grows, (3) ground lease income on the corner parcel, (4) property tax increments in addition to the City's typical share of the property tax allocation and (5) lease income from the ground space in the Locust St. garage.

The majority of the Redevelopment Agency income from Town Centre will be used to fund the Agency's investment in the project, which is primarily the Locust Street parking structure. However, the Agency participation in the cash flow of the Town Centre development, including the Macy's participation, is not dedicated to the funding of the public investment. It is available for other Agency financial needs.

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Table 5 projects in this analysis, the Agency's participation payment from Town Centre, including Macy's. It should be noted that the estimate is a conservative projection. The value to the Agency could be significantly more if the performance of the project exceeds expectations. For example, in this analysis, the Macy's sales volume is conservatively projected to be \$200 per square foot in 1988. However, it is expected to outperform this projection, as evidenced by the recent success of Nordstrom. The strong retail market will also have a positive impact on the sales volume and profitability of the balance of the retail space in the Town Centre.

The projection of the Agency participation revenue, in 1985 dollars, is \$63,000 in year ten. It is important to note that as the project matures, the value of the Agency share will increase. For example, in year 20, the Agency participation is \$114,000 in 1985 dollars. For Macy's, the participation is \$48,000 in year 10. By year 20, it is \$54,000. To restate, these projections are believed to be conservative.

CONCLUSIONS

As stated in the introduction, this revenue analysis was performed to determine what impact planned development would have on municipal income ten years from now if the traffic control initiative were not to pass. Discretionary revenues, which are those revenues that the City has complete control of their use, were evaluated on an incremental basis for each land use.

In summary, proposed development in Walnut Creek would generate substantial tax revenues to the City. It would also create additional long range benefits by the completion of the retail core of the downtown. These benefits are both direct in terms of property tax, sales tax, and hotel occupancy tax and indirect with respect to the increased pedestrian activity, enhanced business volumes and the completion of the downtown area as a major, pedestrian oriented retail shopping area.

Table 1

WALNUT CREEK DEVELOPMENT PROGRAM,
WITH AND WITHOUT INITIATIVE

USE

1. Retail(1)	
Without	775,000 Sq. Ft.
With	170,000 Sq. Ft.
2. Hotel	
Without	1300 Rooms
With	0 Rooms
3. Office(2)	
Without	2,270,000 Sq. Ft.
With	360,000 Sq. Ft.
4. Residential	
Without	6,700 Units
With	3,335 Units

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- (1) Regional Retail equals 600,000 SF of total and the remaining 175,000 sq. ft. applies to local retail uses.
- (2) Office includes hospital expansion and medical offices/clinics.

Source: City of Walnut Creek
August 1985

Table 2

CITY REVENUE SOURCE ASSUMPTIONS

1.	Property Taxes (including Subventions)	12.4%
2.	Sales & Use Tax	.975%
3.	Property Transfer Tax	.55%/\$1,000
4.	Transient Occupancy Tax:Room Sales	8.5%
5.	Gas & Electric Franchise	1.0%
6.	Cable T.V. Franchise	3.0%
7.	Solid Waste Franchise	3.0%
8.	Business License Fees (Office, hotel and retail)	\$ 9.85/Employees \$148.55/New business
9.	Revenue from other agencies	
	Motor Vehicle in Lieu	\$ 23.27/capita
	Cigarette Tax	\$ 3.99/capita
	Gas Tax (all programs)	\$ 12.07/capita
	Federal Revenue Sharing	\$ 4.40/capita
10.	Misc. Fines and Revenues	\$ 13.10/capita
11.	Redevelopment Agency Tax Increment	1.0% of market value

Source: City of Walnut Creek
August 1985

Table 3

KMA ESTIMATES OF ANNUAL CITY REVENUES FROM PROPOSED DEVELOPMENT IN
 WALNUT CREEK, BY STANDARD INCREMENTS
 (1985\$)

REVENUE SOURCE	REVENUES BY LAND USE				
	Retail Regional 100,000 SF	Retail Local 100,000 SF	Residential 100 Units	Office 100,000 SF	Hotel 100 Rooms
Property Tax	\$ 22,000	\$ 12,000	\$ 20,000	\$19,000	\$ 12,000
Sales & Use	\$195,000	\$112,000	—	—	\$ 14,000
Property Transfer	—	—	\$ 1,500	—	—
Transient Occupancy	—	—	—	—	\$200,000
Gas & Elec	\$ 1,000	\$ 1,000	\$ 500	\$ 2,000	\$ 500
Cable Fran	—	—	\$ 500	—	\$ 500
Solid Waste	\$ 60	\$ 60	\$ 75	\$ 60	\$ 75
Bus Lic	\$ 5,000	\$ 3,000	—	\$ 5,000	\$ 1,000
Other Rev	—	—	\$ 10,000	—	—
Misc Fees	\$ 2,000	\$ 2,000	\$ 3,000	\$ 5,000	\$ 1,000
Total	\$225,060	\$130,060	\$ 35,575	\$31,060	\$229,075

Source: Keyser Marston Associates, Inc.,
 August 1985

Table 4

RESERVE ASSUMPTIONS BY USE

<u>USE</u>	<u>VARIABLE ASSUMPTION</u>
1. Retail	
Regional	
Property Tax =	\$175/sq. ft.
Sales & Use Tax =	\$200/sq. ft.
Business Lic. =	4,000 sq. ft./tenant 1 employee/600 sq. ft.
Gas & Elec. Fran. =	\$1/sq. ft./year
Solid Waste Fran. =	\$20/1,000 sq. ft.
Misc. Fines & Rev. =	1 employee/600 sq. ft.
Local	
Property Tax =	\$100/sq. ft.
Sales & Use Tax =	\$115/sq. ft.
Business =	10,000 sq. ft./tenant 1 employee/600 sq. ft.
(same as above)	
2. Residential	
Property Tax =	\$175,000/unit (excludes land value)
Property Transf. Tax =	\$1.10/\$1000
Gas & Elec. Fran. =	\$600/Unit
Cable T.V. Fran. =	\$170/Unit
Solid Waste Fran. =	\$25/Unit
Misc. Fines =	Pop Increment 230
Rev. Other Agency =	Pop Increment 230
3. Office	
Property Tax =	\$150/sq. ft. (includes land value)
Gas & Elec. Fran. =	\$1.80/sq. ft.
Solid Waste Fran. =	\$20/1,000 sq. ft.
Business Lic. =	1 employee/250 sq. ft. 10 business/100,000 sq. ft.
Misc. Rev. =	1 employee/250 sq. ft.
4. Hotel	
Property Tax =	\$100,000/Room (excludes land value)
Transient Occup. =	\$85 ADR, 75% occupancy
Sales Tax =	\$50/room
Gas & Elec. Fran. =	\$500/room
Cable T.V. Fran. =	\$170/room
Solid Waste Fran. =	\$25/room
Business Lic. =	1 employee/room
Misc. Fines =	1 employee/room

Source: Keyser Marston Associates, Inc. for property tax, sales tax assumptions and ERA's study, "Fiscal Implications of Core Area Alternative Futures," 9-20-84.

Table 5
PROJECTED CITY REVENUES FOR TEN YEARS
(1985\$)

	<u>YEAR</u>	<u>RETAIL</u>	<u>RESIDENTIAL</u>	<u>OFFICE</u>	<u>HOTEL</u>	<u>TOTAL</u>
<u>WITHOUT PASSAGE OF MEASURE</u>						
	1	\$ 158,000	\$ 238,500	\$ 70,500	\$ 298,000	\$ 765,000
	2	316,000	477,000	141,000	596,000	1,530,000
	3	474,000	715,000	211,500	894,000	2,295,000
	4	632,000	954,000	282,000	1,192,000	3,060,000
	5	790,000	1,192,500	352,500	1,490,000	3,825,000
	6	948,000	1,431,000	423,000	1,788,000	4,590,000
	7	1,106,000	1,669,500	493,500	2,086,000	5,355,000
	8	1,264,000	1,908,000	564,000	2,384,000	6,120,000
	9	1,422,000	2,146,500	634,500	2,682,000	6,885,000
	10	1,580,000	2,835,000	705,000	2,980,000	7,650,000
TEN YEAR REVENUE INCREMENT		8,690,000	13,117,500	3,877,500	16,390,000	42,075,000
<u>WITH PASSAGE OF MEASURE</u>						
	1	\$ 31,500	\$ 118,500	\$ 11,200	0	\$ 161,200
	2	63,000	237,000	22,400	0	322,400
	3	94,500	355,500	33,600	0	483,600
	4	126,000	474,000	44,800	0	644,800
	5	157,500	592,500	56,000	0	806,000
	6	189,000	711,000	67,200	0	967,200
	7	220,500	829,500	78,400	0	1,128,400
	8	252,000	948,000	89,600	0	1,289,600
	9	283,500	1,066,500	100,800	0	1,450,800
	10	315,000	1,185,000	112,000	0	1,612,000
TEN YEAR REVENUE INCREMENT		1,732,500	6,517,500	616,000	0	8,866,000

NEW LOSS 33,209,000

Source: Keyser Marston Associates, Inc.
September 1985

Table 6

WALNUT CREEK TOWN CENTRE
SUMMARY OF AGENCY REVENUES
(1985\$)

<u>YEAR</u>	<u>AGENCY PARTICIPATION COMMERCIAL PARCEL CASH FLOW (1)</u>	<u>AGENCY PARTICIPATION GROWTH OF MACY'S SALES(2)</u>
1988-1	\$ 0	\$ 0
2	0	8,926
1990-3	0	16,715
4	0	23,484
5	0	29,336
6	18,475	34,366
7	22,954	38,656
1995-8	63,786	42,290
9	63,500	45,333
10	62,739 <u>231,454</u>	47,848 <u>286,9</u>
11	138,350	49,894
12	129,915	51,521
2000-13	122,160	52,775
14	100,258	53,700
15	139,740	54,333
16	171,651	54,708
17	153,078	54,855
2005-18	141,860	54,803
19	131,580	54,576
20	113,672 <u>1,342,264</u>	54,197 <u>535,3</u>
	<u>1,573,718</u>	<u>822,3</u>

- (1) Agency receives 10% of the developer's cash flow from the office, hotel and retail development. The above figures are preliminary estimates.
- (2) Agency receives .5% of the growth in Macy's sales above a stated level. For purposes of these projections, Macy's sales volumes are conservatively estimated to be \$200 per square foot in 1988, but are expected to be higher, as evidenced by the recent success of Nordstrom.

Source: Keyser Marston Associates, Inc.
August 1985

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